



# CCM 2013 Testimony

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## ***PLANNING & DEVELOPMENT COMMITTEE***

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CCM is Connecticut's statewide association of towns and cities and the voice of local government - your partners in governing Connecticut. Our members represent over 92% of Connecticut's population. We appreciate this opportunity to testify before this joint committee.

### **S.B. 620, "An Act Concerning the Audit of Certain Municipalities"**

CCM has concerns with this bill.

This bill would require the state auditors to audit the books and accounts of any municipality that receives more than 35% of its revenue from the state, and has a population over 30,000.

Local officials are willing to work with legislators to find appropriate ways to increase the efficiency and accountability of municipalities – when there is a significant reconfiguration of the property tax system. Absent that, this bill seems duplicative of present municipal audit requirements – audits that are filed with the State.

Attached is a list of accountability measures endorsed by the Blue Ribbon Commission on Property Tax Burdens and Smart Growth Initiatives – these measures are to be coupled with structural reform of the property tax system.



If you have any questions, please contact Ron Thomas [rthomas@ccm-ct.org](mailto:rthomas@ccm-ct.org) at (203) 498-3000.



From “Report of the State of Connecticut Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives”

## Municipal Reporting and Accountability

A priority for changes to the state and local tax system should be an increase in budget “transparency” and accountability on the state and local level.

*Therefore, the commission recommends establishing measures through state legislative action that promote a greater degree of municipal accountability and ensure that the property tax burden on residents and businesses be reduced if significant state revenues are used to supplant property tax revenues. The following are some examples of ways to increase municipal accountability:*

1. Encourage more rigorous requirements for uniform financial reporting, financial policy making, and disclosure by municipal government.

(a) Formal adoption by local government legislative bodies of a fund balance reserve policy, which describes the minimum fund balance reserve to be maintained in the general operating fund (e.g. 5 percent), the types of revenue-enhancement and cost-containment actions that will be undertaken to meet minimum reserve levels, exceptional circumstances that would be legitimate causes of fund balance reserve to drop – temporarily, until corrective action led to recovery over time – below the minimum threshold (e.g., natural disaster, steep cuts in state revenue transfers), and the amount of time allowed before fund balance reserves are to return to the minimum level set forth in the policy.

(b) In consultation, with the Connecticut Office of Policy & Management, CT Government Finance Officers Association, Government Accounting Standards Board or other body of the accounting profession, Connecticut Conference of Municipalities, Connecticut Council of Small Towns, and local government representatives, development of standards for form and content of operating and capital budgets (pre-fiscal year accountability), quarterly financial reports (accountability and opportunity for corrective action during a fiscal year), and financial reporting (end of the fiscal year). Among content and indicator requirements would be the following:

- Fund balance reserves;
- Pension fund liability and contributions for the current fiscal year, and at least three prior fiscal years, as a percent of that required to meet adequate, actuarially-determined funding requirements;
- Outstanding debt as a share of operating revenues and expenditures, assessed taxable property, and per capita debt burden;
- Separation, heart-and-hypertension and other health care, and other non-debtrelated long-term liabilities;
- For operating budgets, presentation – by major revenue source, expenditure object class, and fund balance – of actual results versus those budgeted for at least three prior fiscal years;
- Presentation of key assumptions for principal revenue sources and expenditure object classes for the upcoming fiscal year’s budget, distinguishing material one-time revenue sources and expenditures from those that are recurring;
- Include in the presentation of the operating budget a multi-year financial plan (recommended by the credit rating agency Fitch as an important indicator of sound fiscal management), presenting – by major revenue source, expenditure object class, and resulting fund balance – the local government’s fiscal position for at least the next three years, including a clear presentation of principal assumptions that drive the projections. If projected recurring expenditures exceed projected recurring revenue in any of the three future years, the budget/multi-year plan would describe the actions to be taken to restore balance;
- Presentation of off-balance sheet accounts; and
- Plan for implementing conclusions and recommendations in independent auditors’ management letters.

(c) The State Office of Policy and Management, or an entity selected by that office, shall examine the resulting financial reports from each municipality and present an annual report grading each municipalities’ financial management. These reports shall be uniform, and summarize each category of financial management on which OPM deems appropriate to comment with a grade. A principal goal

of the reports will be to give members of the public without wide knowledge of municipal finance a means to assess the financial management of their municipality. The reports will be publicly available and distributed to the local press.

2. Create a more aggressive mechanism for state financial oversight if one, or a number of, 'triggers' or warnings are exceeded.

(a) The State, with appropriate input from CCM, COST, local government representatives and others, would establish two classifications for local governments facing financial strain, with varying degrees of state oversight associated with each classification:

- **Watch List.** The state government would send written notice to a local government that, through triggering certain criteria of fiscal strain, it has been placed on a watch list. Such criteria may include some combination of (1) a number of consecutive years of operating budget deficits, (2) excessive use of one-time revenue sources to balance the budget, (3) excessive debt burden, (4) a number of consecutive years of tax collection rate falling by at least a percentage point, (5) multiple or a substantial downgrade by credit rating agencies within a certain amount of time, (6) repeated failure to comply with financial reporting requirements, and/or (7) pattern of insufficient funding of pension obligations. The notice would describe the criteria that caused the government to be placed on the watch list, as well conditions that would need to be met for a local government to remove itself from the watch list.

During the first year on the watch list, the local government would be encouraged by the State to use technical assistance (locally selected, or that recommended by the state) to put in place a multi-year financial recovery plan, which would define the amount of deficit reduction to take place in each of the following three years necessary for a structurally balanced budget, as well as management initiatives necessary to increase revenues and reduce spending such that the deficit-reduction targets are achieved. If the local government does not develop a recovery plan during its first year on the watch list, and remains on the watch list for a second year, the State may require that the local government put in place a recovery plan, meeting the State's content requirements for said plan.

- **Financial Oversight.** The state government could declare a local government to be in a state of financial distress if a number of criteria are triggered beyond those of the watch list, such as (1) negative fund balance or multiple years of negligible fund balance, (2) property tax collection rate falling below 85 percent, (3) a material default on outstanding debt, (4) findings of large-scale fiscal malfeasance, and (5) consistent failure to comply with conditions associated with the watch list. The State would appoint a financial oversight board, leaving authority of elected officials and department heads in place, while the oversight board exercises its authority to monitor operating and capital budgets and multi-year financial recovery plans, labor contracts, service contracts over a certain dollar amount, and debt issuance promulgated by local officials. The State would, together with the local government, develop a multi-year financial recovery plan through the State's staff or its agents, through some combination of local and state funding. Local officials would be responsible for carrying out the recovery plan.

State statute would define the conditions for establishment, appointment process, funding sources, authority, conditions for dissolution, and other aspects of a financial oversight board, either on a case-by-case basis, or providing discretion to the governor, with advice of the legislature.

3. Provide increased technical assistance from the State to local governments.

(a) Identification of state employees and/or consultants to serve as technical assistance providers to local governments. These state employees and/or consultants would demonstrate to the State's satisfaction qualifications in key areas of local government operations (e.g., personnel management, operational improvements, tax assessments and collection, accounting, budgeting, management information systems, investment management, debt management, engineering). Funding for this expertise could stem from a combination of state appropriations and state withholding of a portion of revenue transfers to local governments in need of such services.

Support and coordination for the implementation of recommendations provided.